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US BANKING SYSTEM DURING THE GLOBAL FINANCIAL CRISIS

The US financial crisis began in late 2006 with the subprime mortgage crisis in the subprime sector. It appeared because of inflating of the mortgage market bubble caused by the Federal Reserve System's low interest rates, abundant liquidity, booming real estate market and frivolous attitude to borrowers of mortgage companies. In order to increase mortgage portfolio US financial institutions did not set strict criteria concerning borrowers: a significant amount of money (about 1.3 trillion dollars or 11% market share) was issued to citizens without confirmed incomes and with poor credit history (Simkovic). From 2001 to 2005, the value of the property, which was owned by households directly increased by \$10 trillion. During the crisis, Americans lost about \$ 6 trillion from the value of their property. Chain reaction around the world began when the mortgage companies, while trying to get out of a difficult situation with a poor-quality mortgage loans, started to sell mortgage bonds to institutional investors in the US and other countries.

The first signs of crisis approach appeared January 15, 2006, when information about the sharp decline in profits of «Citigroup», one of the largest financial corporations in the world, led to the fall on the New York Stock Exchange. On the same day, the index of industrial activity of «Dow Jones» fell by 2.2% (Cheng 37-66). Resources have been also rising in price since the summer of 2004 to the summer of 2006 because the Federal Reserve System (FRS, Fed) raised the base interest rate from 1% to 5.25% per annum. Synthesis of loans appreciation and decrease in house prices (burst of «price bubble» in the property market) has led to massive defaults. In November of 2007 the rating agency «Moody's» stated that no first payment had been made on many loans (Cheng 37-66).

Thus, in 2007 the US mortgage crisis began, caused by uncontrolled mass delivery of high-risk loans, where the likelihood of full payment is lower than in other categories of loans, and in 2008 it grew into a financial collapse. The financial system of the United States finally got frozen in September 2008, when Lehman Brothers Holdings, Inc., an American investment bank, declared bankruptcy (Roger C. Altman). Then, the biggest collapse in the US economy since the Great Depression of the 1930s resulted in a large-scale crisis in the world economy.

According to the Fed, in August 2008, broad money (M2) declined for the first time in three years – by 0.2% (to \$ 7.687 trillion). However, the scale reduction of dollar supply, according to the opinion of economists, was significantly large. It is impossible to estimate it through official sources because since February 2006, US stopped publishing the changes of a broader monetary aggregate M3, referring to the fact that this indicator is not significant. Anyway, economists estimated that as long as the world economy could easily absorb issued dollars, inflation in the United States would remain negative and there would be low probability of the risk of price growth in coming months.

In 2008, when the financial crisis started, bankruptcy of 25 US banks, including giants such as Lehman Brothers and Bear Stearns, caused panic in global markets. In the first half of 2008, FDIC added 117 credit organizations to the list of «problematic» American banks. In October – November net loss of banks that insured depositors' money in FDIC was approximately \$ 26.2 billion («The Global Financial Crisis»). The number of financial institutions in «problem list» of FDIC increased in the fourth quarter of 2008 by 47%, from 171 to 252 banks. In 2008, the largest of the banks that went bankrupt was IndyMac, whose assets accounted for \$ 32 billion and deposits had \$19 billion. According to Bloomberg data with the premise to the Federal Deposit Insurance Corporation (FDIC) US, consolidated financial results of US banks in the fourth quarter of 2008 showed a net loss for the first time in 18 years («Toxic Loans Topping»).

As of 21 November 2009, 124 banks failed. The number of such banks was growing constantly. How much was that critical to the banking system? Comparing the number of failing banks during other crises, the numbers are not that impressive. In the 80s the big savings and loans crisis – S & L (Saving and Loans) crisis happened. At that time, only during 1989 more than five hundred banks went bankrupt («The Banking Crises»).

Recently, the US financial sector held a series of acquisitions and such big market players as Bear Stearns, Lehman Brothers and Merrill Lynch were absorbed. There were many crises in the history of these banks, but nothing could disrupt them. Only efforts to increase their profits by risky methods led them to failure (Roger C. Altman).

As soon as the crisis has deepened due to the bankruptcy of investment bank Lehman Brothers, the government (Ministry of Finance) intervened and raised the guarantee of all deposits from \$100,000 to \$250,000 («The Global Financial Crisis»). Thus, the main «official» banking system was protected from panic, but work of «parallel» banking system (investment banks, investment funds, hedge funds, etc.) completely froze. Since all financial companies in today's global economy are deeply intertwined, the supply of credit to all agencies, financial and non-financial, for some time almost stopped. Central Reserve System (US central bank) had to intervene for the first time since the Great Depression and to finance directly the US economy.

The measures involved by the US government to support banks and further decline in GDP may be unprecedented in scale among countries with market economies. In October 2008, the Bush administration has achieved allocation of \$ 700 billion to repurchase from private companies and banks of illiquid assets («The Global Financial Crisis»). On 13 February 2009, the US Congress approved a plan to stimulate the new economy of Barack Obama with \$ 787 billion. Moreover, the US Treasury announced the preparation of another program for banks assistance, upon which, the amount of anti-crisis injections of only the new administration will exceed \$ 2 trillion. These figures are quite large even for the standards of the US economy.

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